

**U. S. Customs Service
Office of Strategic Trade
Regulatory Audit Division**

**Focused Assessment Program
Pre-Assessment Survey
Audit Program**

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Focused Assessment Program Pre-Assessment Survey Audit Program

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PRE-ASSESSMENT SURVEY AUDIT PROGRAM

PART 1 BACKGROUND

1.1 OVERVIEW

On December 8, 1993, the U.S. Congress enacted Customs modernization provisions under Title VI of the North American Free Trade Agreement Implementation Act (Public Law 103-182). These provisions are commonly called the Customs Modernization Act (Mod Act). The Mod Act is based on two basic tenets: shared responsibility and informed compliance. Shared responsibility means that importers and Customs have a mutual responsibility to ensure compliance with trade and Customs laws. The purpose of informed compliance is to maximize voluntary compliance. The informed compliance concept imposed many publication, consultation, and notice obligations on Customs.

The Mod Act fundamentally altered the relationship between importers and the Customs Service. The Mod Act shifted the legal responsibility for declaring the value, classification, and rate of duty applicable to entered merchandise to the importer and requires importers to use reasonable care to assure that Customs is provided accurate and timely data. Customs retains the ultimate responsibility to "fix" the value, classification, and rate of duty. Informed compliance is based on the premise that, in order to meet their responsibilities, importers need to be clearly and completely informed of their legal obligations. To meet its obligations under the Mod Act, Customs will spend more time and use more effective methods to inform the public, with the goal of maximizing voluntary compliance and reducing the need for enforced compliance.

1.2 AUTHORITY TO CONDUCT AUDITS

Under 19 U.S.C. 1509, Customs may examine records to ascertain the correctness and determine the liability for duty, fees, and taxes due the U.S. The Focused Assessment Program was developed to guide the audit team through the examination process.

1.3 RISK MANAGEMENT

Customs performs its duty in an environment in which decisions regarding the allocation of finite resources have become increasingly important. We define risk as the degree of exposure to the chance of noncompliance that would result in loss to the trade, industry, or the public. Risk management is the integrated process for identifying and managing risk in trade compliance.

Risk management is a method of managing by identifying and controlling those events that have the potential to cause significant problems. The key to risk management is to gather and analyze all relevant data efficiently and effectively and use these data to make decisions about allocating resources. In Customs trade terms, that means identifying those imports that represent the greatest risk of noncompliance so that we can focus our resources in those areas. Customs acknowledges that not all importers present the same level of risk for noncompliance, and many importers do not present a risk that justifies a significant allocation of resources.

The Focused Assessment Program fulfills critical components of Customs risk management process. First, the Focused Assessment (FA) provides a systematic approach to data collection. Next, an analysis of data can be used to determine the likelihood of

noncompliance. Once a potential risk has been identified and analyzed, importers can design an action plan and assign resources to address that risk. Finally, the results of the assessment are reported, tracked, and input back into the risk management process.

The Focused Assessment Program is composed of two processes: Pre-Assessment Survey (PAS) and Assessment Compliance Testing (ACT). During the PAS process, Customs identifies areas of risk by evaluating the adequacy of the importer's internal control system. In ACT, Customs identifies the extent of compliance and/or computes the loss of revenue for areas of risk.

PART 2 PRE-ASSESSMENT SURVEY

2.1 OBJECTIVE

Evaluate the adequacy of internal controls to provide reasonable assurance that the company will be compliant with Customs laws and regulations and to determine whether additional testing is necessary to ascertain the extent of compliance and/or compute revenue loss.

2.2 PLANNING AND PREPARATION

Sub-objective: Plan the Pre-Assessment Survey (PAS) process of the Focused Assessment (FA) program.

Audit Step	Initials & Date	Work Paper Ref.
<p>A. Contact members of the PAS team.</p> <ul style="list-style-type: none"> (1) If 90 days or more has elapsed since the receipt of the annual plan, contact the local Office of Investigations to determine whether a fraud investigation of the importer is either planned or in progress. If not, coordinate with the computer audit specialist (CAS) to develop the importer profile. (2) Coordinate with the computer audit specialist (CAS), import specialist (IS), account manager (AM), and other team members as necessary. <p>B. Hold a planning meeting with PAS members to:</p> <ul style="list-style-type: none"> (1) Review any prior audits and follow-ups for significant findings and recommendations. (2) Review the profile for industry issues, compliance measurement results, and areas of potential risk; (3) Discuss risks identified by the Import Specialist, Account Manager, and other team members as necessary; and (4) Discuss the role of each team member during the PAS process. <p>C. Based on available Customs information, primary focus and special trade issues, and discussions with PAS team members, customize the Internal Control Questionnaire for Focused Assessments.</p> <p>D. Contact company and follow up with confirmation letter. Include in the discussion and/or letter:</p> <ul style="list-style-type: none"> (1) A date for the return of the completed questionnaire. (2) An offer to provide assistance or training in completing the questionnaire if needed. (3) A request for the general ledger chart of accounts, working trial balance and/or post closing trial balance. (4) A request for a descriptive narrative and/or flowchart for Customs-related activities listed in the questionnaire. (5) A request for the company's documented internal control policies and procedures pertaining to Customs-related activities. 		

Audit Step	Initials & Date	Work Paper Ref.
<p>(6) The date for the advance conference.</p> <p>(7) The name and title of the contact person.</p> <p>(8) The locations of Customs accounting and inventory records.</p> <p>(9) Reference to the Customs Internet site for more information.</p> <p>E. Hold the advance conference with the importer to:</p> <p>(1) Explain the Focused Assessment Program:</p> <ul style="list-style-type: none"> • PAS process • ACT process <p>(2) Provide the company with Focused Assessment documents.</p> <p>(3) Obtain the completed questionnaire, working trial balance, and other documents requested from the company.</p> <p>(4) Discuss appropriate sections of the importer profile.</p> <p>(5) Discuss the "Timely Completion and Resolution of Issues of Focused Assessments" document and provide a copy to the company.</p> <p>(6) Discuss with the company the need for timely completion of the Focused Assessment, including their responsibilities for timeliness and responsiveness.</p> <p>(7) Establish mutually agreed-upon dates with the company for:</p> <ul style="list-style-type: none"> • Providing requested documents, • Entrance conference, • PAS completion date, and • Other milestones as necessary. <p>(8) Provide the company with Regulatory Audit lines of authority for resolution of issues.</p> <p>F. Hold a planning meeting with PAS members to set the scope of the review.</p> <ul style="list-style-type: none"> • Prepare the entrance conference agenda. • Identify entry transactions needed for the walk-through. <p>Note: A minimum PAS review will include value (including basis of appraisal) and classification. Possible areas to consider based on risk exposure include the following:</p> <ul style="list-style-type: none"> <input type="checkbox"/> HTSUS 9801.00.10 <input type="checkbox"/> HTSUS 9802.00.40 and 9802.00.50 <input type="checkbox"/> HTSUS 9802.00.60 <input type="checkbox"/> HTSUS 9802.00.80 <input type="checkbox"/> HTSUS 9802.00.90 <input type="checkbox"/> Antidumping/Countervailing Duties <input type="checkbox"/> Bonded Warehouse <input type="checkbox"/> Foreign Trade Zone (FTZ) <input type="checkbox"/> Quota/Visa Merchandise Entered in an FTZ <input type="checkbox"/> Transshipment 		

Audit Step	Initials & Date	Work Paper Ref.
<input type="checkbox"/> Generalized System of Preferences (GSP) <input type="checkbox"/> Caribbean Basin Economic Recovery Act (Also known as CBI) <input type="checkbox"/> Caribbean Basin Trade Partnership Act <input type="checkbox"/> Quantity <input type="checkbox"/> Reconciliation <input type="checkbox"/> OTHER – Identify		
G. Review the general ledger trial balance in preparation for macro testing and to identify accounts of interest to Customs.		
H. Send the company a written confirmation of the entrance conference date. Include a request for the documents that support the transactions identified for the walk-through.		
I. Hold the entrance conference to discuss specific PAS objectives and to officially begin fieldwork on the assessment.		
J. Through discussions with the importer and a review of documents, determine how and where the company records Customs transactions in its books and records. "Walk through" the Customs entry process for each applicable review area to determine the company's control procedures and weaknesses in: <ul style="list-style-type: none"> • Ordering and purchasing foreign merchandise • Receiving foreign merchandise • Recording receipt in inventory • Declaring merchandise to Customs • Paying foreign vendors • Distribution to customer, if applicable (e.g., drop shipments) • Export of merchandise, if applicable (e.g., assists, Chapter 98) 		

2.3 MACRO RISK ANALYSIS

Sub-objective: Identify potential risks to compliance or revenue based on analytical reviews of Customs and company data, where applicable.

Audit Step	Initials & Date	Work Paper Ref.
A. Review Customs ACS data for the PAS scope to identify importing practices and potential risk associated with those practices. For example: Calculate risk/impact for special trade programs showing risk of nonqualification for duty-free status (i.e., \$12 million of 9802 where U.S. origin is not substantiated would result in additional annual duties of \$2.4 million).		
B. If available, review company data in comparison to Customs ACS data for the PAS scope to identify variances and risks.		

Audit Step	Initials & Date	Work Paper Ref.
<p>C. Conduct appropriate macro tests.</p> <p>Note: If a macro risk analysis of value discloses the difference in value between entered value and company data does not exceed one percent of the entered value or \$10,000,000, whichever is less, for the period under review. then transaction testing may not be necessary for value. This test and other information obtained during the PAS review may be adequate to confirm that the company is compliant.</p>		

2.4 REVIEW FOR RISK EXPOSURE LEVEL

Sub-objective: Determine the probability of significant Customs noncompliance for each review area.

Note: In each step of determining risk exposure, consideration should be given to:

- Significance (to Customs) and sensitivity (e.g., issues of interest to Congress or the media, or affecting admissibility)
- Susceptibility (of making incorrect declarations)
- The existence of any “red flags”
- Management support (of strong internal controls)
- Competent personnel (to adequately administer the controls)

Audit Step	Initials & Date	Work Paper Ref.
<p>A. Evaluate information submitted, including the profile, completed questionnaire, ACS and/or company macro analyses, and “red flags” (see applicable technical guides) to assess the risk exposure as low, moderate, or high in each of the applicable review areas.</p>		

2.5 REVIEW OF IMPORTER’S INTERNAL CONTROL SYSTEM AND PROCEDURES

Sub-objective: Determine if the company’s internal controls are implemented and being followed.

Note: In each step of reviewing internal controls, consideration should be given to:

- Control Environment
- Risk Assessment
- Control Activities
- Information and Communication
- Monitoring

Audit Step	Initials & Date	Work Paper Ref.
A. Evaluate the company's internal control manual and any documentary evidence of the control environment, risk assessment, control activities, information and communication, and monitoring to assess internal controls as weak, adequate, or strong in each of the applicable review areas.		

Note: This step involves completing the various specific internal control worksheets attached to each area reviewed by the PAS team.

2.6 DETERMINING EXTENSIVENESS OF AUDIT TESTS

Sub-objective: Determine the appropriate number of controls and associated transactions for testing the effectiveness of the internal controls.

Audit Step	Initials & Date	Work Paper Ref.
A. Using the results of the risk exposure and internal control reviews, identify the extensiveness of audit tests for each of the applicable review areas.		
B. Select the test samples.		
C. If the importer submitted a prior disclosure to Customs, the PAS team should decide whether to review it as a part of the PAS. If it is to be reviewed, the PAS team must: <ul style="list-style-type: none"> Develop appropriate testing procedures to determine the accuracy and completeness of the disclosure. Determine whether the cause of the errors was corrected. 		
D. Provide a request to the company for documents supporting the judgmentally selected controls and/or transactions.		

2.7 REVIEW OF THE JUDGMENTAL SAMPLES

Sub-objective: Determine the effectiveness of the importer's Customs internal controls.

Audit Step	Initials & Date	Work Paper Ref.
A. Based on the review of the sampled transactions, conclude whether the internal controls were effective for each review area.		

2.8 EVALUATION OF PRE-ASSESSMENT SURVEY RESULTS

Sub-objective: Evaluate whether the review of processes, policies and procedures, internal

controls, and results of tests indicates that the company's internal control system is effective in reducing the risk to Customs of significant noncompliance with laws and regulations.

Audit Step	Initials & Date	Work Paper Ref.
A. Meet with PAS team members to determine if the risk to Customs is acceptable or unacceptable for each of the review areas and to discuss the risk opinion based on current findings.		
B. Prepare a finding sheet for each area determined to have unacceptable risk.		
C. Discuss the results with the company and obtain comments.		
D. If importing processes and controls are adequate and no unacceptable risks were identified proceed to section 2.9 "Pre-Assessment Survey Closure."		
E. If unacceptable compliance risks or loss of revenue are identified:		
(1) Determine if the company will implement corrective action through a compliance improvement plan (CIP).		
<ul style="list-style-type: none"> • If the company agrees to implement a CIP, coordinate with the account manager to establish a date for completion of the CIP. 		
<ul style="list-style-type: none"> • If the company does not agree to implement a CIP, decide whether additional testing is necessary to determine the level of compliance. 		
(2) Determine if additional testing is necessary to quantify loss of revenue.		
<p>Note: The Trade Act of 2002 ("the Act") was signed by President Bush on August 6, 2002. The Act contains a provision (Section 382) to offset duty overpayments with duty underpayments on liquidated entries during audits. The Act must be considered when determining if additional testing is necessary to quantify loss of revenue.</p>		
<ul style="list-style-type: none"> • If additional testing is not necessary, proceed to section 2.9 "Pre-Assessment Survey Closure." 		
<ul style="list-style-type: none"> • If additional testing is necessary and the company does not agree to or cannot do the testing, advise the company that the Assessment Compliance Testing phase of the Focused Assessment will be initiated to determine the extent of noncompliance and/or to quantify any lost revenue. 		
<p>NOTE: The FA should not be delayed to wait for the company to take corrective action. The PAS report should be written and issued as soon as adequate information is available and work is complete.</p>		

2.9 PRE-ASSESSMENT SURVEY CLOSURE

Sub-objective: Perform steps required to close the Pre-Assessment Survey and to issue the Pre-Assessment Survey report.

Audit Step	Initials & Date	Work Paper Ref.
A. Meet with PAS members to discuss the risk opinion and plan the exit conference, if necessary.		
B. Hold the exit conference with the company to discuss PAS results.		
C. Finalize the Pre-Assessment Survey report.		